

CITY OF INGALLS, KANSAS
WATER, SEWER AND TRASH FUND

FINANCIAL STATEMENT
with
INDEPENDENT AUDITOR'S REPORT
YEAR ENDED DECEMBER 31, 2012

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INDEPENDENT AUDITOR'S REPORT

The Honorable Mayor and City Council
City of Ingalls, Kansas

We have audited the accompanying Water, Sewer and Trash Utility Fund summary statement of regulatory basis receipts, expenditures, and unencumbered cash balance of the City of Ingalls, Kansas, as of and for the year ended December 31, 2012, and the related notes to the financial statement.

Management's Responsibility for the Financial Statement

Management is responsible for the preparation and fair presentation of this financial statement in accordance with the *Kansas Municipal Audit and Accounting Guide* as described in Note A to meet the financial reporting requirements of the State of Kansas. Management is also responsible for the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of the financial statement that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial statement based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the *Kansas Municipal Audit and Accounting Guide*. Those standards require we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on auditor's judgment, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statement.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles

As described in Note A, the financial statement of the Water, Sewer and Trash Utility Fund is prepared by the City of Ingalls, Kansas to meet the requirements of the State of Kansas on the basis of the financial reporting provisions of the *Kansas Municipal Audit and Accounting Guide*, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

The effects on the financial statement of the variances between the regulatory basis of accounting described in Note A and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the “Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles” paragraph, the financial statement referred to above does not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the Water, Sewer and Trash Utility Fund of the City of Ingalls, Kansas as of December 31, 2012, or changes in financial position and cash flows thereof for the year then ended.

Basis for Qualified Opinion on Regulatory Basis of Accounting

The utility billing software does not provide for an adequate audit trail to determine that charges, collections and accounts receivable are correct at any point in time. In addition, the condition of the utility billing records for the first four months of 2012 were such that we were not able to satisfy ourselves as to the amounts recorded as receipts in the Water, Sewer and Trash Utility Fund beyond what was recorded in the general ledger and deposited in the bank.

Qualified Opinion on Regulatory Basis of Accounting

In our opinion, except for the effects of the matter described in the “Basis for Qualified Opinion on Regulatory Basis of Accounting” the financial statement referred to above presents fairly, in all material respects, the cash and unencumbered cash balance of the Water, Sewer and Trash Utility Fund of the City of Ingalls, Kansas as of December 31, 2012, and the receipts and expenditures for the Water, Sewer and Trash Utility Fund for the year then ended in accordance with the financial reporting provisions of the *Kansas Municipal Audit and Accounting Guide* described in Note A.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the Water, Sewer and Trash Fund summary statement of regulatory basis receipts, expenditures, and unencumbered cash balance (basic financial statement) as a whole. The Water, Sewer and Trash Fund summary of regulatory basis expenditures-actual and budget and the Water, Sewer and Trash Fund schedule of regulatory basis receipts and expenditures (Schedules 1 and 2 as listed in the table of contents) are presented for analysis and are not a required part of the basic financial statement, however are required to be presented under the provisions of the *Kansas Municipal Audit and Accounting Guide*. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statement. The information has been subjected to the auditing procedures applied in the audit of the basic financial statement and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statement or to the basic financial statement itself, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, except for the effects of the matter described in the “Basis for Qualified Opinion on Regulatory Basis of Accounting” the information is fairly stated in all material respects in relation to the basic financial statement as a whole, on the basis of accounting described in Note A.

Emphasis of Matter

As discussed in Note A, the financial statement presents only the Water, Sewer and Trash Utility Fund and does not purport to, and does not, present fairly the aggregate cash and unencumbered cash balances of the City of Ingalls, Kansas as of December 31, 2012, and the aggregate receipts and expenditures for the year then ended in accordance with the financial reporting provisions of the *Kansas Municipal Audit and Accounting Guide* described in Note A. Our opinion is not modified with respect to this matter.

Kennedy McKee & Company LLP

August 27, 2013

CITY OF INGALLS, KANSAS

SUMMARY STATEMENT OF RECEIPTS, EXPENDITURES
AND UNENCUMBERED CASH
REGULATORY BASIS

Year Ended December 31, 2012

<u>Fund</u>	<u>Beginning unencumbered cash balance</u>	<u>Prior year canceled encumbrances</u>	<u>Receipts</u>	<u>Expenditures</u>	<u>Residual equity transfer</u>	<u>Ending unencumbered cash balance</u>	<u>Add encumbrances and accounts payable</u>	<u>Ending cash balance</u>
Business fund:								
Water, Sewer and Trash Utility	<u>\$ 222,143</u>	<u>\$ -</u>	<u>\$ 163,503</u>	<u>\$ 127,745</u>	<u>\$ 46,481</u>	<u>\$ 304,382</u>	<u>\$ 5,892</u>	<u>\$ 310,274</u>
Composition of cash balance:								
Checking								\$ 160,563
Savings accounts								121,230
Certificates of deposit								<u>28,481</u>
Total cash								<u>\$ 310,274</u>

The accompanying notes are an integral
part of the financial statement.

CITY OF INGALLS, KANSAS

NOTES TO FINANCIAL STATEMENT

December 31, 2012

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This summary of significant accounting policies applied in the preparation of the accompanying financial statement is presented to assist in understanding the City's Water, Sewer and Trash Utility Fund financial statement. The financial statement and notes are the representation of the City's management, which is responsible for their integrity and objectivity.

1. Municipal Financial Reporting Entity

The City of Ingalls is a municipal corporation governed by an elected mayor and five-member council. This financial statement includes only the financial data of the Water, Sewer and Trash Utility Fund and does not include the data for all the departments and funds of the City, as a legal entity. The City has no related municipal entities.

2. Fund Accounting

The accounts of the City are organized on the basis of funds. In governmental accounting, a fund is designated as a sum of money or other resources segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations and constituting an independent fiscal and accounting entity.

City resources are allocated to and for individual funds based upon the purpose for which they are to be spent and the means by which spending activities are controlled.

The Water, Sewer and Trash Utility Fund is a business fund. This fund is financed in whole or in part by fees charged to users for goods or services.

3. Regulatory Basis of Accounting and Departure from Accounting Principles Generally Accepted in the United States of America

The *Kansas Municipal Audit and Accounting Guide* (KMAAG) regulatory basis of accounting involves the recognition of cash, cash equivalents, marketable investments, and certain accounts payable and encumbrance obligations to arrive at a net unencumbered cash and investments balance on a regulatory basis for each fund, and the reporting of changes in unencumbered cash and investments of a fund resulting from the difference in regulatory basis revenues and regulatory basis expenditures for the fiscal year. All recognized assets and liabilities are measured and reported at cost, unless they have been permanently impaired and have no future cash value or represent no future obligation against cash. The KMAAG regulatory basis does not recognize capital assets, long-term debt, accrued receivables and payables, or any other assets, liabilities or deferred inflows or outflows other than those mentioned above.

The City has adopted a resolution that is in compliance with K.S.A. 75-1120a(c), waiving the requirement for application of generally accepted accounting principles and allowing the City to use the regulatory basis of accounting.

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4. Budgetary Information

Kansas statutes require that an annual operating budget be legally adopted for the general fund, special purpose funds (unless specifically exempted by statute), bond and interest funds, and business funds. Although directory rather than mandatory, the statutes provide for the following sequence and timetable in the adoption of the legal annual operating budget:

1. Preparation of the budget for the succeeding calendar year on or before August 1st.
2. Publication in the official newspaper of the proposed budget and notice of public hearing on the budget on or before August 5th.
3. Public hearing on or before August 15th, but at least ten days after publication of notice of hearing.
4. Adoption of the final budget on or before August 25th.

The statutes allow for the governing body to increase the originally adopted budget for previously unbudgeted increases in revenue other than ad valorem property taxes. To do this, a notice of public hearing to amend the budget must be published in the local newspaper. At least ten days after publication the hearing may be held and the governing body may amend the budget at that time. There were no such budget amendments for this year.

The statutes permit transferring budgeted amounts between line items within an individual fund. However, such statutes prohibit expenditures in excess of the total amount of the adopted budget of expenditures of individual funds. A budget comparison statement is presented showing actual receipts and expenditures compared to legally budgeted receipts and expenditures.

All legal annual operating budgets are prepared using the regulatory basis of accounting, in which revenues are recognized when cash is received and expenditures include disbursements, accounts payable, and encumbrances, with disbursements being adjusted for prior year's accounts payable and encumbrances. Encumbrances are commitments by the municipality for future payments and are supported by a document evidencing the commitment, such as a purchase order or contract. Any unused budgeted expenditure authority lapses at year end.

B. COMPLIANCE WITH KANSAS LAW

References made herein to the statutes are not intended as interpretations of law, but are offered for consideration to the Director of Accounts and Reports, Kansas Department of Administration, and interpretation by legal representatives of the City.

K.S.A. 9-1402 requires all of the City's deposits to be secured by FDIC insurance coverage and pledged securities for deposits in excess of FDIC coverage. As indicated in Note C, the City's deposits were under secured by \$8,514 as of December 31, 2012.

C. DEPOSITS AND INVESTMENTS

K.S.A. 9-1401 establishes the depositories which may be used by the City. The statute requires banks eligible to hold the City's funds to have a main or branch bank in the county in which the City is located, or in an adjoining county if such institution has been designated as an official depository, and the banks provide an acceptable rate of return on funds. In addition, K.S.A. 9-1402 requires the banks to pledge securities for deposits in excess of FDIC coverage. The City has no other policies that would further limit interest rate risk.

Custodial credit risk - deposits. Custodial credit risk is the risk that, in the event of a bank failure, the City's deposits may not be returned to it. State statutes require the City's deposits in financial institutions to be entirely covered by federal depository insurance or by collateral held under a joint custody receipt issued by a bank within the State of Kansas, the Federal Reserve Bank of Kansas City, or the Federal Home Loan Bank of Topeka.

At December 31, 2012, the City's carrying amount of deposits of the Water, Sewer and Trash Fund was \$310,274 and the bank balance was \$311,057. The bank balance of all of the City's deposits was \$509,900, of the bank balance, \$501,386 was covered by federal depository insurance and \$8,514 was unsecured.

D. LONG-TERM DEBT

Changes in long-term liabilities for the Water, Sewer and Trash Fund of the City for the year ended December 31, 2012, were as follows:

<u>Issue</u>	<u>Balance beginning of year</u>	<u>Additions</u>	<u>Reductions/ payments</u>	<u>Balance end of year</u>	<u>Interest paid</u>
Loans with the Kansas Department of Health and Environment:					
Kansas Public Water Supply					
Issued September 29, 2003					
In the amount of \$155,346					
At interest rates of 3.78%					
Maturing August 1, 2024	\$ 109,532	\$ -	\$ 6,665	\$ 102,867	\$ 4,078
Water Pollution Control					
Issued August 31, 2005					
In the amount of \$341,736					
At interest rate of 2.83%					
Maturing September 1, 2023	<u>253,572</u>	<u>-</u>	<u>18,744</u>	<u>234,828</u>	<u>7,044</u>
Total long-term debt	<u>\$ 363,104</u>	<u>\$ -</u>	<u>\$ 25,409</u>	<u>\$ 337,695</u>	<u>\$ 11,122</u>

D. LONG-TERM DEBT (CONTINUED)

Current maturities of loans and interest for the next five years and in five year increments through maturity are as follows:

	<u>Principal due</u>	<u>Interest due</u>	<u>Total due</u>
2013	\$ 26,197	\$ 10,334	\$ 36,531
2014	27,010	9,521	36,531
2015	27,850	8,681	36,531
2016	28,715	7,816	36,531
2017	29,609	6,922	36,531
2018-2022	162,463	20,191	182,654
2023-2024	<u>35,851</u>	<u>1,233</u>	<u>37,084</u>
Total	<u>\$ 337,695</u>	<u>\$ 64,698</u>	<u>\$ 402,393</u>

E. INTERFUND TRANSFERS

Transfers were as follows:

<u>From</u>	<u>To</u>	<u>Statutory authority</u>	<u>Amount</u>
Sewer and Trash	General	K.S.A. 12-825d	\$ 46,481

F. RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and, natural disasters. The City purchases commercial insurance to cover these risks. There have been no significant reductions in coverage from the prior year. Settled claims have not exceeded coverage in any of the past three years.

G. SUBSEQUENT EVENTS

Management has evaluated subsequent events through August 27, 2013, the date on which the financial statements were available to be used. Management's evaluation concluded that there are no subsequent events that are required to be recognized or disclosed in these financial statements.

**REGULATORY REQUIRED
SUPPLEMENTARY INFORMATION**

CITY OF INGALLS, KANSAS

SUMMARY OF EXPENDITURES - ACTUAL AND BUDGET
REGULATORY BASIS

Year Ended December 31, 2012

<u>Fund</u>	<u>Certified budget</u>	<u>Adjustment for qualifying budget credits</u>	<u>Total budget for comparison</u>	<u>Expenditures chargeable to current year</u>	<u>Variance favorable (unfavorable)</u>
Water, Sewer and Trash Utility	<u>\$ 198,230</u>	<u>\$ -</u>	<u>\$ 198,230</u>	<u>\$ 127,745</u>	<u>\$ 70,485</u>

See Independent Auditor's Report.

CITY OF INGALLS, KANSAS

WATER, SEWER AND TRASH UTILITY FUND

SCHEDULE OF RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET
REGULATORY BASIS

For the Year ended December 31, 2012

	Actual	Budget	Variance favorable (unfavorable)
Receipts:			
Customer charges	\$ 160,880	\$ 104,000	\$ 56,880
Interest income	422	400	22
Water miscellaneous	2,201	-	2,201
Total receipts	163,503	\$ 104,400	\$ 59,103
Expenditures:			
Salaries and wages	11,502	\$ 600	\$ (10,902)
Repairs and maintenance	18,198	10,000	(8,198)
Utilities	9,999	15,600	5,601
Water supplies	2,414	5,200	2,786
Postage	146	500	354
Debt service	36,532	36,530	(2)
Capital outlay	-	106,000	106,000
Professional fees	9,929	2,000	(7,929)
Office expenses	4,292	-	(4,292)
Other	555	1,800	1,245
Trash services	34,178	20,000	(14,178)
Total expenditures	127,745	\$ 198,230	\$ 70,485
Receipts over (under) expenditures	35,758		
Unencumbered cash, beginning of year	222,143	\$ 174,616	\$ 47,527
Residual equity transfer	46,481	\$ -	\$ 46,481
Unencumbered cash, end of year	\$ 304,382	\$ 80,786	\$ 223,596

See Independent Auditor's Report.